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DE RUEHBW #1144/01 2261121  
ZNR UUUUU ZZH  
R 141121Z AUG 07  
FM AMEMBASSY BELGRADE  
TO RUEHC/SECSTATE WASHDC 1316  
INFO RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/USDOC WASHDC

UNCLAS BELGRADE 001144

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E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [KPRV](#) [SR](#)  
SUBJECT: PRIVATIZATION COMPLETION STRATEGY IN SERBIA

REF: 06 BELGRADE 2091

SUMMARY

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11. Mladjan Dinkic, Minister for Economy and Regional Development, and Vesna Dzinic, new director of the Agency for Privatization, on July 18 presented their strategy for completing privatization of socially-owned companies in Serbia. The current law on privatization required that privatization in Serbia be completed by March 2007, but Dinkic said that the goal is simply to have sales procedures underway for all companies by the end of 2008. However, bankruptcy and forced liquidation will be used to dispose of some of the most problematic companies, they said. End Summary.

NEW STRATEGY FOR COMPLETION

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12. Mladjan Dinkic, Minister for Economy and Regional Development and Vesna Dzinic, Director of the Privatization Agency, on July 18 presented their strategy for completing the privatization of socially-owned companies. Dzinic said that the remaining companies awaiting privatization are unique and do not fit into the current Privatization Law. The strategy proposes adoption of amendments to the current Law on Privatization extending the deadline to finish privatization of socially-owned enterprises by the end of 2008. In addition, the strategy envisages speeding-up of the privatization process and intensification of the bankruptcy procedures.

13. Serbia still faces a big job on privatization. Dzinic said that 1,177 companies still await privatization. Some 1,070 companies employing 92,343 workers will be put up for auction, 77 companies with 69,911 workers will be put out for tender and 27 companies employing 27,998 workers are in the restructuring process. In order to reach the set deadline, the Agency is planning to increase the number of auctions per month from 30 to 60. When asked whether that goal is realistic, Dzinic said that the Agency has the capacity to offer to the market the companies by the end of 2008 however the real question is whether the market has the capacity to absorb offered companies. She also explained that the plan is to put all these companies on the market by the end of 2008 but not to privatize them by the deadline. According to the Agency for Privatization, 1,737 companies have been privatized since 2002, 89 by tender and 1,648 by auction. However, sales contracts have been terminated in 243 cases. Total revenues have reached EUR 1.88 billion, with guaranteed investments of EUR 1.1 billion and severance for redundant workers of EUR 276 million.

14. Dinkic said that the changes to the law will be introduced in September with the goal of adopting a new law by the end of 2007. Some companies will be privatized through the bankruptcy process as a means to reorganize the business and in these cases Dinkic said the government will negotiate with workers to find the best solution. He added that changes to the law will include increased monitoring of contracts and that the Privatization Agency will continue to terminate contracts where the buyer does not meet the contract obligations.

HOW MUCH MORE?

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¶5. For those companies that do not have capital, or assets, or workers, a forced bankruptcy procedure, which will be introduced with the changes to the law, will be applied. Dzinic explained that some companies existing only "on paper" will be deleted from the Business Register. The revised law would also introduce an automatic bankruptcy procedure for companies that fail three attempts at privatization. Taking that into account, Dzinic expects that the number of companies awaiting privatization will be reduced significantly from 1,173 companies and that only about 230 socially-owned companies will finally be privatized. Currently, there are 420 companies in the Bankruptcy Center of the Privatization Agency and only 53 companies have completed the bankruptcy procedure.

#### SENSITIVE PRIVATIZATION CASES

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¶6. Dzinic said that there are also some 230 companies where privatization is suspended by two government decrees in order to protect the property of the former Yugoslav republics. Dzinic suggested that the decrees should be revoked and that money from privatization of these companies should be put into a separate account to be divided among former Yugoslav republics.

¶7. Concerning the companies with majority state ownership, like NIS (oil), EPS (electricity), JAT (airline), Dinkic suggested adoption of a privatization law for each of those companies. The Ministry of Economy will also propose to the government a strategy to privatize a state ownership in the local utility companies (approximately 600 companies).

#### COMMENT

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¶8. Dinkic has set ambitious goals for privatization that may be achievable with his new team at the Ministry of Economy and the Privatization Agency. However, bankruptcies and forced liquidations are an unpopular means of dealing with failing companies in Serbia and will be the greatest political challenge. Aside from the technical challenges of quickly processing all these bankruptcy cases, the political atmosphere is complicated due to likely presidential and local elections this winter and most of the government's attention remains focused on the Kosovo issue.

#### SIMMONS